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March 1965

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INTELLIGENCE BRIEF

RECENT UPSURGE IN EAST GERMAN ECONOMIC ASSISTANCE TO LESS DEVELOPED COUNTRIES

DIRECTORATE OF INTELLIGENCE
Office of Research and Reports

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RECENT UPSURGE
IN EAST GERMAN ECONOMIC ASSISTANCE
TO LESS DEVELOPED COUNTRIES

As part of a drive to strengthen its economic and political ties with less developed countries, East Germany recently has increased dramatically the volume of its offers and extensions of economic aid. After having extended only \$55 million of economic aid to developing countries in the first 10 years of the Communist aid program (1954-63), East Germany since the beginning of 1964 has more than tripled the amount of its previous commitments by extending more than \$190 million in new economic aid (see the table). This sudden upsurge in the level of aid

East German Economic Aid Extended to Less Developed Countries
 1954-63 and 1 January 1964 - 15 March 1965

		Million US \$
	<u>1954-63</u>	<u>1 January 1964 - 15 March 1965</u>
Total	<u>54.9</u>	<u>191.8</u>
Africa	<u>6.8</u>	<u>6.5</u>
Ghana	1.7	0
Guinea	5.0	0
Mali	0.1	0
Tanzania	0	6.5
Asia	<u>10.6</u>	<u>84.4</u>
Ceylon	0	42.0
India	2.0	0
Indonesia	8.6	42.4 a/
Middle East	<u>37.5</u>	<u>100.9</u>
Syrian Arab Republic	2.7	0.1
United Arab Republic	34.7	100.8
Yemen	0.1	0

a. This figure may be as high as \$60 million.

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activities reflects a greater East German determination to use its increased economic capability to exploit more fully the political potential of the aid program. Another factor in the regime's decision is its need to develop new outlets for machinery and equipment exports that generally are not competitive in Western markets. Pursuant to the accomplishment of these economic and political objectives in the less developed countries, East Germany has expanded recently the scope of its aid undertakings and has liberalized its terms.

1. Pattern of East German Aid, 1954-63

Before 1964, except for a \$20 million credit to the UAR and a \$3 million credit to Guinea, all East German aid had been designated for the purchase of equipment for single projects rather than for large lines of credit as was typical of the aid from most other Communist lenders. Thus, for example, credits were extended to Ghana, Guinea, and Mali for the purchase of printing plant equipment; to India, Syria, and the UAR for textile machinery; to Indonesia for a sugar refinery; and to Yemen for a telephone exchange. Amortization periods for these credits averaged about 5 years, and interest rates were 2.5 to 4 percent. These hard repayments terms plus the fact that the agreements were actually contracts to sell equipment tended to make most of East Germany's transactions more commercial than aid-oriented. Also, deliveries of equipment under these contracts were expedited rapidly because in many cases there was a minimum of project involvement and the projects were relatively simple to implement. By the end of 1964, virtually all of the \$55 million of aid committed between 1954 and 1963 had been delivered.

2. The New, Expanded Program

Similar to the Soviet practice, East Germany now offers large lines of credit, and recent credit extensions have generally been made under general economic cooperation agreements. These agreements encompass numerous projects for which contracts will be drawn after feasibility surveys are made and individual project negotiations are completed. East Germany also will become more directly involved in project activities and for the first time has agreed to cover local costs of some aid projects that it is undertaking. For example, in its credit to Ceylon, one-fourth of the total amount extended has been obligated for that purpose. Similar provision was made in its aid agreement with Tanzania. In Ghana its offer of aid was for "turnkey" projects for which East Germany would assume full responsibility. Repayment periods, under recently extended credits, also have been prolonged and interest rates reduced to be more nearly consistent

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with Soviet aid terms. The \$42 million credit to Ceylon is repayable in 10 annual installments and carries an interest rate of 2.5 percent. The East German credit of about \$100 million to the UAR is to be repaid in 12 years. \$70 million of the credit will bear an interest rate of 2.5 percent and the remainder will carry 4 percent.

3. Political Implications of the New Program

While its expanded program is intended to satisfy certain economic requirements of the East German economy, it is being employed simultaneously as an instrument to exact greater political concessions from the less developed countries. Offers, aggregating more than \$135 million, currently are being negotiated with Burma, Cambodia, Ghana, Malawi, Uruguay, and Yemen. Most of these offers, as well as the extensions of aid that have been agreed to in recent months, are believed to have been associated with political conditions. For example, the Leuschner delegation that visited India in February 1964 discussed; (1) Indian recognition of East Germany; (2) establishment of an East German consular or diplomatic mission in India; (3) Indian representation, such as a trade mission, in East Germany; (4) liberalization of Indian visa regulations; and (5) long-term economic assistance. Although in no instance has East Germany achieved full diplomatic recognition as a result of its aid offers, Ceylon raised East German representation to consular status before the receipt of a \$42 million credit, and the UAR agreed to establish a consular mission in East Germany when it accepted the credit of about \$100 million from East Germany during Ulbricht's recent visit. In spite of the blunt pressures put on Indonesia to extend full diplomatic recognition in return for sizable long-term credits, the threat of West German withdrawal of aid may have made Indonesia reluctant to go beyond the consular representation that had been agreed to in 1960. Nevertheless, Indonesia has received a series of credits totaling more than \$40 million that may come under a line of credit reported to be as high as \$60 million.

4. Outlook

East Germany will probably continue to press less developed countries to accept additional aid offers so long as the political and economic factors that have impelled the recent upsurge are operative and so long as the increased viability of the East German economy makes it able to fulfill the higher level of its new aid undertakings.

Analyst:

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ORR

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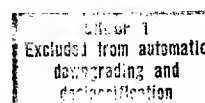
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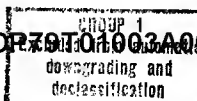
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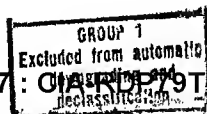
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